

A Work Project, presented as part of the requirements for the Award of a Master Degree in Management from the NOVA – School of Business and Economics.



**Spicing Up Foreign Markets:  
A Strategic Concept to Drive Salmarim's Internationalization**

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## **Abstract**

This work develops a strategic internationalization concept for Salmarim; a Portuguese micro-enterprise that produces gourmet salt and has recently been doubling its sales year after year. To support this development, this work provides a structured approach on how to further internationalize Salmarim's business. Basing on the latest literature, an international market selection is performed – under the utilization of a customized scoring-model that ranks several countries from North-Eastern Europe. This model identifies Norway as the most attractive foreign market for Salmarim. Furthermore, advice on the entry mode to approach the Norwegian market and the risks associated with this venture, is provided.

**Keywords:** *Salmarim, Gourmet Salt, Internationalization, International Market Selection*

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## **1. Introduction**

The Portuguese micro-enterprise and gourmet salt producer *Salmarim* has been doubling its year-to-year sales over the last years. Now, the ambitious company decided to take on its rather sporadic internationalization efforts in a structured and evidence-based manner. This work project aims to develop a comprehensive strategic concept that allows Salmarim to act on these plans. The main objective is to answer the question ‘Which is the most attractive internationalization target for Salmarim and how to approach it?’. This research question bases on the underlying hypothesis that Salmarim would benefit from expanding into a new foreign market. Therefore, the following aspects are covered: (1) First, a brief overview of the latest research on international market selection and adjacent topics will set this work into perspective – providing a solid scientific foundation. (2) Furthermore, Salmarim’s strategic environment will be analyzed in depth; covering the company itself and its strategic objective as well as the global gourmet salt industry and the competitive landscape. This analysis aims to demonstrate how the process of international market selection can be embedded into a company’s overall strategy; instead of being a stand-alone initiative that might jeopardize important company objectives. (3) Finally, the core of this work, consists of an extensive international market selection. This includes not only to find the best target country for Salmarim’s efforts, but also to analyze the target market extensively to ensure its strategic and economic fit. Additionally, aspects regarding the choice of entry mode and potential risks are investigated.

## **2. Literature Review**

***Approaches on Internationalization*** — The term *internationalization* is relevant for various academic disciplines and refers to a broad variety of issues that coincide with a company’s extension of international activities. (Buckley and Ghauri 1999) Hence, a uniform definition cannot be found. Welch and Luostarinen (1988) describe internationalization exemplarily as “the process of increasing involvement in international operations”. Although most researchers agree on this understanding, various concepts have been developed throughout

the past decades. Most recently, the focus of academic literature has been shifting to the discussion of two potentially rivaling perspectives; the *born-global* approaches and the *traditional* approaches. (Chetty and Campbell-Hunt 2004) This applies especially to the internationalization of small and medium enterprises (SMEs) – such as Salmarim.

Among the traditional approaches (also called *stage models*) the Uppsala model (U-M) is the most popular in recent literature. The U-M suggests that companies go through four stages while gradually deepening their international commitment: (1) no regular export activities, (2) export via independent representatives, (3) sales subsidiary, and (4) production/ manufacturing in a foreign country. (Johanson and Wiedersheim-Paul 1975) However, this model – derived from the internationalization processes of several Swedish firms (Andersen 1993) – is frequently criticized in literature for being too deterministic and inflexible. (Johanson and Vahlne 1990) In effect, the U-M has been revised and adapted to take dynamic business environments into account. This resulted in an additional focus on inter-organizational processes and the management of international networks. (Vahlne and Johanson 2013) In addition to the U-M, there exists another kind of stage models: the innovation-related models (I-M). These similarly assume that companies internationalize in consecutive steps. However, the stages differ from the ones presented in the U-M. Also, the I-M focus stronger on the idea that firms must regard each new step as an innovation. Hence, the main aspect of the I-M is the learning process needed to frequently adopt these innovations. (Andersen 1993)

Opposing to the stage models, there is a trend in recent literature to suggest that companies do not necessarily follow an incremental path of sequential stages, but operate in several foreign countries soon after their incorporation. For those firms a domestic market often does not exist or is comparably small and hence insignificant. (Chetty and Campbell-Hunt 2004) The absence of an incremental process results in a much faster and more dynamic internationalization. This focus on rapid internationalization caused a shift in research from large multinationals to SMEs and micro-enterprises. (Knight and Liesch 2016)

***International Market Selection (IMS)*** — Regardless of the concepts and discussions presented previously, firms that plan to venture into new markets must take various actions in the process. Those include the analysis of the firm's readiness, the suitability of the firm's products/services for foreign markets, a screening of all potential target markets, an in-depth industry analysis and, ultimately, the choice of entry mode. (Cavusgil, Knight and Riesenberger 2014) The literature on the internationalization of SMEs is discussing two of those aspects with special attention: the IMS and the choice of entry mode. This might come from the notion that those are the main differences of the internationalization process when compared to other strategic processes. (Andersen and Buvik 2002) Naturally, the field of target countries for a company's internationalization intentions is vast. Therefore, it is necessary to approach IMS in an objective and structured manner in order to choose a suitable target. (Cavusgil, Kiyak and Yenyurt 2004) The academic coverage of such approaches is extensive. (Cavusgil 1985, Minifie and West 1998, Kumar, Stam and Joachimsthaler 1994, Gaston-Breton and Martín Martín 2011) Nonetheless, previously conducted literature reviews show that the basic elements are often similar. Hence, Kumar, Stam and Joachimsthaler (1994) suggest the following generic steps: (1) country screening, (2) country identification, and (3) country selection. The factors proposed in literature for the fact-/data-based conduction of those steps are manifold. Examples are indicators for the demographic environment (e.g. population, age), the political environment (e.g. corruption), or the economic environment (e.g. growth, trade barriers). (Ozturk, Joiner and Cavusgil 2015) Therefore, companies should choose a suitable set of individual indicators; depending on their industry, strategic objectives, and specific needs.

***Choice of Entry Mode*** — After the IMS, the ultimate strategic decision is the choice of entry mode. Entry modes can be described as „institutional arrangements for how to organize and conduct business transactions when a firm enters a foreign country“ (Wulff 2016). Building up on the extensive research of Root (1994), who initially identified 15 different entry modes, Johnson and Tellis (2008) suggest that there are five general types of entry mode: (1) Export,

(2) Licensing/Franchising, (3) Strategic Alliances, (4) Joint Ventures, and (5) fully owned subsidiaries. The decision for an entry mode must take a firm's specific strategy and characteristics into account. Important aspects in this regard are the level of commitment, the available resources, and the willingness to give up a control. (Laufs and Schwens 2014)

Synthesizing the findings of the literature review and Salmarim's current situation (see *Section 4.1*), the concept of being born-global and the importance of a structured process are especially relevant for this work. Additionally, the suggestion that the internationalization process must be closely adapted to a company's strategic objectives will be put into practice.

### **3. Data and Methodology**

This work and its conclusions rely on two general types of data sources/information. Regarding primary research, several interviews with Salmarim's founder have been conducted. These interviews had the purpose to gather company- and industry-specific insights. Those were specifically important to embed the final recommendations into the company's overall strategy. Moreover, secondary research provided the necessary external data that has been used to analyze, rank and select foreign target markets. Sources for this part of research were public and commercial databases as well as the findings of specialized research firms. Apart from the data that supports this work, the structure and the methodology of the proposed internationalization strategy based mainly on the extensive research conducted by Cavusgil and others. (Cavusgil 1985, Ozturk, Joiner and Cavusgil 2015)

### **4. Strategic Environment**

This section aims to embed Salmarim's plans to further internationalize into a holistic strategy assessment. This aims to align the internationalization concept with Salmarim's overall strategy and additionally means to increase the probability of success and the sustainability of the internationalization efforts. For Salmarim as a micro-enterprise, this is crucial since its resources are limited and a failure would seriously affect the business's overall performance.

## **4.1 Company Overview**

While the brand Salmarim has already been registered in 2008, the enterprise has been incorporated in 2012. Ever since, the Portuguese company specialized in the production of high quality salt – sourced from its salt works located in Castro Marim, Portugal. Due to its revenues of €154,570 in 2015 and its workforce of up to five persons<sup>1</sup>, Salmarim can be considered a micro-enterprise<sup>2</sup>. However, the company is on a growth path, having constantly doubled its year-to-year revenues and nearly tripled it from 2014 (€55,690) to 2015. (Raiado 2016a) In terms of operations, Salmarim covers not only the salt production but also packages the salt (packaging comes from suppliers) and organizes the shipping to the customers via an external service provider. Currently Salmarim's maximum production capacity of Flor de Sal ranges between nine and eleven tons. However, it is planned to expand the capacity over the next three years alongside Salmarim's growth ambitions. Increasing the production capacity is comparably easy for the company since additional ponds in the region can be either bought or rented. These options allow Salmarim to adapt flexibly, at reasonable costs, and with a relatively low risk (i.e. sunk costs). The classic product-based business model accounts for a major share of Salmarim's activities. Nonetheless, Salmarim is working on diversifying its business model in various ways (see *Section 4.3* for more information). (Raiado 2016b)

Salmarim's product portfolio consists basically of two types of natural sea salt. One of which is common sea salt – a high quality natural table salt. The product for which Salmarim is famous, however, and that builds the base of its brand, is a specialty sea salt called “Flor de Sal” (also known as “Fleur de Sel” in French), which means “flower of salt” in Portuguese. Due to its crispy texture and the outstanding taste, Flor de Sal is usually used as a finishing salt, meaning that it is applied to food right before the consumption to refine it. Hence, Flor de Sal is also called “crème de la crème [...]” or “caviar of salts” (SaltWorks n.d.). This type of salt

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<sup>1</sup> The number of employees can vary due to the temporary hiring of workers during the harvesting season.

<sup>2</sup> Definition as ‘micro-enterprise’ according to the requirements set by the European Union. (Commission of the European Communities 2003)



arises as crispy layer on the seawater in a saline as it evaporates. Subsequently the emerging salt crust is manually skimmed off the water surface in order to preserve its special texture. This process is not only complicated and labor-intensive; it also can only be performed under special weather conditions. Harvesting Flor de Sal requires warm and dry weather and a light breeze. In Castro Marim and the rest of the Algarve (e.g. Tavira) these requirements are met during a large share of the year, which makes the Portuguese Flor de Sal superior to its French pendant. It has a better consistence and a pure white color (whereas French Fleur de Sel is slightly grey) making it especially attractive for gourmet applications and high cuisine. (Raiado 2016b)

In terms of prices, Salmarim (and other gourmet salt producers) can command a significant premium for its products. The retail price can be up to 30 times higher than the one for common table salt. Pricing and packaging are adapted to Salmarim's two customer groups: (1) consumers (served directly or via selected retail/gourmet shops) and (2) HORECA<sup>3</sup> businesses (served without an intermediary). Due to the customers' high willingness to pay, Salmarim's margin ranges from 120% to 300%; depending on product and customer type.

## **4.2 Industry Analysis**

With a yearly output of 273 million metric tons (2015) – growing with a CAGR of 2.27% since 2000 – the global salt industry is enormous in size. (US Geological Survey 2016) However, the salt industry is extremely heterogeneous. Most of the salt production goes into applications such as chemical use, de-icing, water treatment or animal feed. [Appendix I] In industrialized countries, only a small share of the salt production (7% in Europe; 5% in the U.S.) has a food grade quality. (European Salt Producers' Association n.d., Salt Institute n.d.) Therefore, not the whole salt industry is of relevance for Salmarim, which makes it necessary to further define the relevant portion of the industry to draw valuable conclusions for a solid internationalization strategy.

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<sup>3</sup> Stands for businesses of the Hotel/Restaurant/Café industry.

***Industry and Market Definition*** — Since Salmarim defines its products mainly over the superior quality and a premium pricing, a suitable sub-industry should reflect those two features and also include substitutes. An industry that combines those elements and still has a size that provides a sufficient significance is the gourmet salt industry (GSI). Although there is no clear definition to be found, gourmet salts (also called *specialty salts*) have become a set category in the edible salt segment. Gourmet salts are usually untreated, have a low sodium content and do not contain chemical additives (however, blends with natural additives such as herbs and spices are not uncommon). Also, the harvesting/mining process is often less industrialized than in the production of ordinary table salt. Due to its high quality, the extraordinary flavor and the special texture, gourmet salts find a broad and steadily growing variety of applications in high cuisine. These reach from the high catering and hospitality market over confectionery to bakery. The GSI can be segmented by the different types of salt, which are manifold. Among others there are some more popular sorts: Coarse Salt, Flake Salt, Flor de Sal, Hawaiian Sea Salt and Himalaya Salt. (INFOSA n.d., SaltWorks n.d.) [*Appendix 2*] In this context it is important to mention that the GSI is not yet at such a high maturity as the overall salt industry. Although the initial ‘introduction phase’ is clearly completed, the industry is still growing and awaiting consolidation and institutionalization on its way to full maturity.

***Market Size and Growth Estimations*** — When quantified, the gourmet salt market (GSM) is currently estimated to have a total value of about US\$ 1.1 billion (as of 2015). Market researchers predict the worldwide market to grow at a CAGR of nearly 7% and to reach a value of about US\$2.2 billion by 2025. The sub-segment of Flor de Sal, which is especially relevant for Salmarim's purposes, is estimated to account for a share of 20% of the GSM. Its value is predicted to grow at a CAGR of 7.5% from about US\$224 million in 2015 to US\$462 million in 2025. Geographically the market is estimated to be dominated by Western Europe (32% market share), which will not change over the years due to a strong CAGR of over 7%.

However, North America is similarly anticipated to grow at a fast pace within the next decade. (Persistence Market Research 2016b)

***Trends and Key Drivers*** — First, companies are constantly introducing new product variants that are in some way “innovative” or “special”. Often this is related to the creation of new categories or flavors. Furthermore, the gourmet salt producers work especially on building their brands and improving their individual visibility, trying to create a strong enough differentiation to allow a competitive advantage and higher margins. (PRNewswire 2016)

When further investigating the roots that determine the growth, and the attractiveness of the GSI, three main drivers can be identified. (1) In the recent past, consumers – especially in the industrialized countries – started to pay more attention to their health and nutrition habits. This increase of awareness led to a higher demand of quality/organic food with natural ingredients and without chemicals and additives. (PRNewswire 2013). (2) Additionally, gourmet food and related recipes get increasingly popular among private households, due to the commercialization of the food and cooking industry. (3) Finally, the economic development that influences the living standards and the disposable income of private households has slowly been recovering since the financial crisis in 2008. However, this is an increasingly uncertain development; considering recent political/economic events. This shows that it is also important to identify factors that are limiting the GSI. Those are mainly the high price that is associated with gourmet salt (caused by the limited product availability and the complicated production process) and the lack of awareness for the products in most of the developing countries. (Persistence Market Research 2016a, Future Market Insights n.d., Marwa 2016)

***Industry Attractiveness*** — For a detailed insight into the industry attractiveness an investigation following Porter's (2008) “5 Forces”-framework has been performed. The key findings of this analysis are presented in *Table 1* on the following page. Overall it can be concluded that the GSI is moderately competitive and attractive – if the market continues to grow at the current/predicted rate. (Porter 2008, Raiado 2016b)

**Table 1**  
**Industry Attractiveness (Porter's 5 Forces)**

Dimension	Key Findings
Threat of entry	The threat of entry for the GSI can be considered moderate-to-high. Reasons are, among others, that supply-side economies of scale are not necessarily needed to succeed, switching costs are low (especially for consumers), network effects are only partially existent and that there are no specific government regulations. However, there are certain incumbent advantages (such as brand awareness and market/product knowledge) and for the opening of production facilities a certain amount of capital is required.
Power of suppliers	What speaks in favor of the industry attractiveness is that the power of suppliers is very low, since the salt producers source their products entirely independent. The only suppliers might be for additives or packaging, which are both easily exchangeable commodities.
Power of buyers	The power of buyers, however, is significantly stronger and should be considered at least moderate. Although the customers are usually not overly price sensitive – since gourmet salt is an indulgence product – they have a certain bargaining leverage that lies in extremely low switching costs/barriers and in the fact, that not all the products are sufficiently differentiated and hence directly replaceable.
Threat of substitutes	When it comes to the threat of substitutes, the GSI faces just a moderate threat. Although there are other quality herbs and spices as well as natural/artisanal food, salt itself is nearly unreplaceable due to its specific flavor and texture and its strong position in (high) cuisine since hundreds of years.
Rivalry among competitors	Finally, the rivalry among the industry competitors was examined. Also, this factor can be classified moderate. On the one hand, there are countless competitors (many of them equal in size and in product portfolio). Exit barriers are relatively high, since production facilities cannot be used otherwise. Additionally, many competitors are highly committed to their business, striving for market share and significance. On the other hand, those factors are balanced out by the fact that competition is not based on price, the overall market is growing, and the products are nearly unperishable.

**Competitive Landscape** — The competitive landscape, in the GSI is heterogeneous and highly fragmented – on a national as well as an international scale. Due to the nature of the industry and the product, a high number of oftentimes small competitors serves various customer bases and niche markets. Due to the premium character of gourmet salt and its artisanal production, operations are not easy to scale and many producers decide to remain at a certain size. When looking at the worldwide GSI, some of the players considered to be most important can be found in *Table 2*. The problem, however, is that it is hard to determine market shares or company sizes, since most of them are small and not publicly listed. Hence the global competitive landscape is rather inscrutable, providing an uncertain competitive environment.

**Table 2**  
**Competitive Landscape by Nationality**

International (Persistence Market Research 2016b)		Domestic (Raiado 2016c)	
Cargill, Inc.	(United States)	Marisol	(Olhão, Portugal)
Morton Salt, Inc.	(United States/Germany)	Vatel	(Alverca/Olhão, Portugal)
SaltWorks, Inc.	(United States)	Tavira Sal	(Tavira, Portugal)
Amagansett Sea Salt Co.	(United States)	Necton	(Olhão, Portugal)
Murray River Gourmet Salt	(Australia)		
Pyramid Salt Pty. Ltd.	(Australia)		
The Marblehead Salt Co. LLC	(United States)		

**Key Success Factors** — To succeed in the GSI, several key factors have been identified during the research conducted for this work project: (1) *Product differentiation* is one of the most important factors in the industry. Only well differentiated, innovative products that meet the demands of consumers and high cuisine can be sold at an exceptional premium; generating high margins. (2) *Customer retention* is another important factor, especially in a market that is still growing and developing new products at a high pace. This is directly connected to (3) *brand development and recognition* which ensure that a company can build a lasting advantage over competing products. Eventually, (4) *quality* (and the consumers trust in it) is another very important factor in a market that is driven by health consciousness. Also, it is another crucial element that allows to extend price ranges and thereby margins. (Raiado 2016b)

**Benchmark Industries** — Finally, the industry analysis included a research for “benchmark industries”. Those are industries considered to contain the GSI – such as (1) the salt industry, (2) the specialty food industry, or (3) the natural/organic food industry – but also industries that are supposed to highly correlate with the GSI – such as the (4) luxury goods industry or (5) the (gourmet-)food service and hospitality industry. It is important to identify such industries because (unlike the GSI) those are major/mature industries for which sound market research is available. Hence, those industries allow micro-enterprises operating in (near-)niche markets, such as Salmarim, to access data and to perform benchmarks in order to draw conclusions about their own market. This is especially relevant for the IMS in *Section 5*.

#### **4.3 Strategy Analysis**

**Strategy and Vision** — In the words of its founder, Salmarim's overarching vision is “to be *the* reference in the Fleur de Sel market” while simultaneously having with a strong commitment to the environment. In the long-term this vision is planned to be reached by three strategic initiatives. (1) *Tourism*: By establishing its salt works in the Algarve – one of Portugal's major touristic areas – as a destination for tourists. The awareness and brand authenticity of Salmarim shall be increased and a strong customer relationship shall be created.

(2) *Technology*: By building up a laboratory in its production facilities, Salmarim plans to secure its capability of creating innovative new products and enhancing its environmental friendliness; promoting research about areas such as salt, sea water, plants and food development. (3) *Gastronomy*: Strong connections to the gastronomy and well known chefs are supposed to foster Salmarim's premium image. In the short term, Salmarim plans to increase its revenues to €500,000. An important factor for reaching this goal is to further internationalize its business and to increase international sales; conquering new and attractive foreign markets. (Raiado 2016a, Raiado 2016c)

***Competitive Advantage*** — According to Grant (1991), competitive advantage stems from a firm's unique organizational resources. When it comes to Salmarim's organizational resource platform, various resources from the areas *Specialized Assets*, *Competences* and *Architecture of Relationships* can be identified. However, when taking the individual resources' strategic importance and relative strength into account, there remain three resources that particularly contribute to Salmarim's success: (1) The *ability to anticipate upcoming market needs* gives Salmarim the advantage to be able to adopt fast to changes in demand and to tie customers to its brand. (2) Salmarim's *network among internationally known chefs* gives it the advantage of being close to a valuable source of knowledge when it comes to product development, application and testing. (3) Salmarim's *good reputation* for producing high quality products and the trust that goes with this reputation are invaluable for the development of customer relationships. [Appendix 3] Although, the company's organizational resources are valuable and allowed it to grow at a fast pace in the past, its resource platform is not a guarantor for future success. The reason for this lies in the sustainability of the individual resources. When testing them against the factors of the VRIO framework (later expanded to VRINNO<sup>4</sup>), first introduced by Barney (1991), it becomes obvious that Salmarim's organizational resources are threatened to lose their importance over time, as competitors are likely to adopt them. [Appendix 4]

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<sup>4</sup> Valuable, Rare, Imperfectly Imitable, Non-Substitutable, Non-Transferable, Organizationally Embedded

***Internationalization Experience and Readiness*** — Since its early years, Salmarim has connections to foreign markets and hence can basically be considered a born global. The company made its first internationalization experiences with only a handful of developed countries: Canada, England, France, and Germany. However, the number of countries in which Salmarim serves customers constantly grew over the years; resulting in total of 11 countries all over the world: Germany, England, Belgium, France, Canada, Italy, São Tome, Netherlands, Poland, and Hungary. All together, these countries accounted for about 20% of Salmarim's revenues in 2015. (Raiado 2016c) However, Salmarim's international activities are oftentimes rather organically grown than strategically planned and institutionalized. Hence, heterogeneous structures started to develop; lacking a consistent strategic tool for IMS and other activities. In terms of channels, Salmarim currently serves its foreign customers (retail businesses, HORECA) directly; without further intermediaries. Salmarim's readiness for internationalization, however, is high. This is reflected in the results of a detailed investigation, taking various aspects into consideration. These include the following: Competencies of Management, Heritage, Relationships, Offerings, Means and Engagement. (David and Cariou 2014) [Appendix 5] The findings of this analysis are additionally supported by the Core™-Tool<sup>5</sup>, which attests Salmarim a moderate-to-high internationalization readiness. [Appendix 6]

#### **4.4 Implications for Further Internationalization**

Summarizing the strategic analysis performed in the previous sections, it can be concluded that Salmarim's outlook for further internationalization is good and proceeding with internationalization should be beneficial. On an internal level Salmarim has not only a competitive product at its disposal but also has experience in international activities and shows a sufficient readiness for further expansion. An analysis of the industry/market level showed positive results as well: the overall market is growing and the industry is sufficiently attractive,

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<sup>5</sup> For more information, see: <http://globaledge.msu.edu/diagtools/CORE>

especially since Salmarim is an incumbent rather than a new entrant. Furthermore, Salmarim seems to master enough key success factors, which allows the company to compete successfully. Finally, it is important, that Salmarim continuously works on its strategy, leveraging its strengths and perceiving opportunities in order to overcome internal weaknesses and external threats. These decisions, regarding Salmarim's long-term strategy, however, are not part of this concept, which solely covers Salmarim's internationalization efforts.

## **5. International Market Selection**

After attesting Salmarim the abilities and the strategic fit for the further internationalization of its business, this section aims to identify the most promising target markets. Therefore, a structured approach will be applied, since previous research has shown that this enhances a SME's chances of success significantly; compared to an ad hoc market selection. (Brouthers and Nakos 2005) Therefore, a three-stages approach has been chosen, as introduced by Cavusgil (1985) and several others (Kumar, Stam and Joachimsthaler 1994, Marchi, et al. 2014). For an optimal outcome, the findings of these researchers and the concepts explained in *Section 2*, have been adapted and synthesized into a methodology tailored to the specific needs of Salmarim. This methodology includes (1) a preliminary stage; delimiting the initial set of countries and ensuring an efficient selection process, (2) a ranking stage; analyzing and evaluating the target countries that passed stage one in depth, and (3) an extensive target market evaluation for the country which received the highest ranking in the second stage.

### **5.1 Preliminary Screening**

At the beginning of the IMS process stood an initial set of 19 countries, that entered the preliminary screening stage. What qualified them as potential targets was the geographic position in Northern/Northeastern Europe. The decision to choose these countries as starting point was a strategic one, brought up by the owner of Salmarim.<sup>6</sup> To ensure the efficiency of

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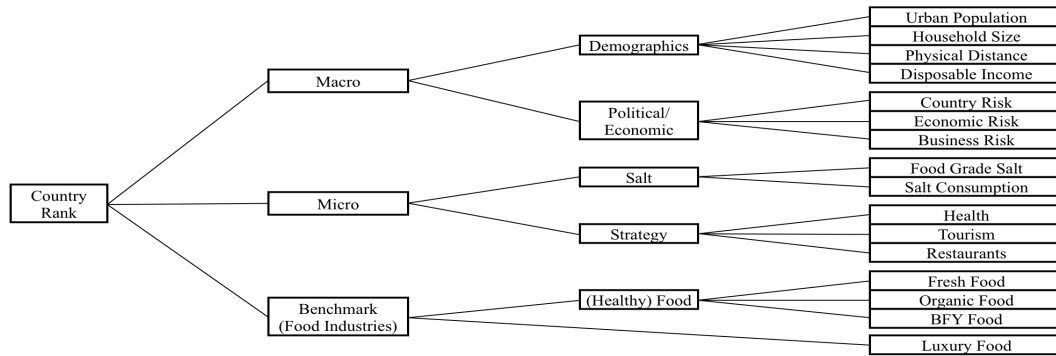
<sup>6</sup> The reasoning behind this is the fact that the North(eastern) European countries do not possess the geographic (especially climatic) conditions that are necessary to produce Flor de Sal in a quality that could compete with Salmarim's products (see also: *Section 4.1*).



the further selection process by investigating a smaller subset of countries, the initial set has been delimited using three discrimination variables: (1) *disposable income*, (2) *country risk*, and (3) *economic freedom*. Allowing only countries with an adjusted disposable income above US\$10,000 per capita to pass the preliminary stage, aims to ensure that the population of a target country has the adequate purchasing power for Salmarim's products which are rather indulgence goods than commodities. The two other factors are both focused on different sources of risk and ambiguity; both aiming to limit the risk that Salmarim would encounter by targeting a country. This is especially important for a micro-enterprise where resources are strictly limited and failures can cause serious damage to the business. Hence, countries with a country risk score higher than 60 (indicating an exceptional risk level for businesses) or an economic freedom index below 60 (marking them as "mostly unfree") have been eliminated from the initial set of countries. The result of the preliminary phase was a set of eight target countries that fulfilled all the three knock-out criteria. [Appendix 7]

## **5.2 Country Ranking**

***Criteria Selection and Data Collection*** — As demonstrated in the literature review, the country ranking must be performed based on various criteria that describe attractiveness and accessibility of the potential target markets. However, there is no consensus over the exact criteria that should be chosen for IMS. Nonetheless, most authors agree that it is necessary to select decision variables tailored to the company at hand, and its objectives. (Marchi, et al. 2014) Usually, these criteria cover different perspectives: (1) The macro-perspective (e.g. demographic, physical, political/economic factors), and (2) the industry/market-perspective on a micro-level (e.g. market size/growth, distribution cost, firm-related barriers). A summary of factors proposed in literature has been composed by Ozturk, Joiner, and Cavusgil (2015). The criteria that were selected for the country ranking in this work project were tailored to Salmarim's individual objectives and have been organized in a multi-level model, as visualized in *Figure 1* on the following page.



**Figure 1**  
*Multi-level criteria tree for country ranking*

The criteria relevant for the country ranking are organized in three main groups: (1) *macro criteria*, (2) *micro criteria*, and (3) *benchmark criteria*. The *macro criteria* cover information on country-level which is not directly linked to the GSM. As Ozturk, Joiner and Cavusgil (2015) suggest, this includes factors from the area of demographics, as well as political/economic criteria. Aspects that are connected directly to the GSI and Salmarim's strategy, can be found in the *micro criteria*. In addition to market measures, these include variables related to three distinct aspects of Salmarim's strategy: health, tourism, and restaurants. Moreover, a third category addresses an important obstacle: Micro-enterprises such as Salmarim – operating in niche markets – oftentimes cannot find sufficient industry-specific data from public or private sources to make a sophisticated decision. Therefore, primary research would be necessary. However, small firms often do not have the capacity that would be needed to perform such research. For this reason, '*benchmark*' criteria have been added to the scoring model. This category is meant to function as a proxy that depicts industry-specific developments and trends, using data from parent industries or industries that are similar/connected to the GSI (see *Section 4.2*). In this work those benchmark industries are on the one hand the food industry (containing factors like the consumption of fresh fish/meat and organic/better-for-you food) and on the other hand the luxury goods industry (with focus on luxury food/beverages). This data will complement the commonly used criteria in order to create a more complete and accurate target country evaluation. A detailed description of the individual criteria and their importance for the country ranking can be found in *Table 3* on the following page.

**Table 3**  
**Detailed description of the country ranking criteria<sup>7</sup>**

ID	Name & Weight <sup>8</sup>	Description
<b>1. Macro Criteria</b>		
1	Urban Population Weight: 5%	The urban population is an important measure of the <i>feasibly accessible size</i> of a potential target market. Furthermore, it is the only measure that quantifies the market size directly, since all other factors will always be quantified as percentages or per capita values.
2	Household Size Weight: 2,5%	Because Salmarim's products are most likely used on a per-household-basis, the household size has a significant effect on sales potential. The smaller a household on average, the higher the total number of households in a country and hence, the higher the sales potential.
3	Physical Distance Weight: 2.5%	Physical distance is important when considering shipping, distribution, communication and relationship building with partners. The higher the physical distance, the more unfavorable are the conditions for the aforementioned activities.
4	Wealth Weights: (1) 6%, (2) 10%, (3) 4%	The category "wealth" consists of three measures, that aim to depict the availability of liquid means and the purchasing power of a countries population. These measures include (1) disposable income, determining the money available, (2) consumer expenditure, deterring the share of disposable income that is actually being spent, and (3) the Gini-Index to avoid distortions caused by inequalities in wealth-distribution.
5	Country Risk Weight: 4%	The country risk measures the overall risk for a company's operations in a country. This risk is quantified in a risk score that includes "issues from politics and security to finance and infrastructure" (The Economist Intelligence Unit n.d.).
6	Economic Risk Weight: 3%	The economic risk measures the (macro-)economic factors that determine the risk of a country. This ranking quantifies and combines, among others, factors like the overall economic freedom, trade freedom and fiscal freedom.
7	Business Risk Weight: 3%	This criterion focuses more on the 'operations level'. This is depicted in the "Ease of doing business"-ranking. "A high [...] ranking means the regulatory environment is more conducive to the starting and operation of a local firm." (The World Bank n.d.)
<b>2. Micro Criteria</b>		
8	Food Grade Salt Weight: 8%	This factor measures the overall food grade salt production in a country, meaning the amount of salt that is edible and hence directly sold to consumers or used to produce other food products.
9	Salt Consumption Weight: 8%	The salt consumption complements the aforementioned criterion by specifying the actual amount of salt that is consumed by the habitants of a country. This is important since it indicates the "taste" of a country's population and influences the sales potential.
10	Health Weight: 6%	As one of the three main aspects of Salmarim's strategy and positioning (natural, healthy products) this criterion aims to measure the awareness and expenditure of a countries population for health. (The amount of money people spend directly on their personal health.)
11	Tourism Weight: 6%	The second aspect of Salmarim's strategy that is incorporated in the criteria category "tourism". The favorability of a country has therefore been measured by three (evenly weighted) factors: (1) the number of Portuguese immigrants living in a country, (2) the number of citizens visiting Portugal as tourists, and (3) the overall number of outgoing travel.
12	Restaurants Weight: 2%	The third pillar of Salmarim's strategy is the cooperation with chefs and the HORECA industry. In order to take this into account the per capita spending on full service restaurants has been made a criterion. This aims to measure the importance of restaurants in the respective countries.
<b>3. "Benchmark" Criteria</b>		
13	Fresh Food Weight: 14%	This criterion covers the size and growth of the fresh food industry, with a focus on fresh meat and fresh fish and seafood, since those are the foods commonly flavored with Flor de Sal.
14	Organic Food Weight: 10%	This criterion covers the size and growth of the organic food industry, taking into account the natural similarity with the GSI since both products are positioned as pure, natural and healthy.
15	BFY Food Weight: 5%	This criterion covers the size and growth of the better-for-you food industry and aims to complement the criterion above (13) as well as the micro-criterion "health" (10).
16	Luxury Food Weight: 1%	This criterion covers the size and growth of the luxury food industry, with a focus on luxury wine and beverages. Since those are also high-priced leisure goods, they should to some extent correlate with the GSI.

<sup>7</sup> Detailed information about the ranking criteria (including sources and original data), can be found in the *Appendices 8, 9, and 10*.

<sup>8</sup> For all the criteria two values have been measured: (1) the total value (accounting for two thirds of the indicated weights), and (2) the estimated CAGR over the next five years (accounting for one third of the weight). This aims to ensure future-orientation of this analysis.

**Standardization, Weighting and Ranking** — After gathering the necessary data for all relevant countries<sup>9</sup>, it was standardized, to be comparable and easier to interpret for further analysis. Hence, each criterion was fitted into a scale from 1 (least favorable) to 100 (most favorable). [Appendix 11] The mathematical term that has been used for this transformation can be found in Appendix 12. In addition to the standardization, each criterion has been weighted (for the weights see Table 1; for the values see Appendix 13), based on the perceived importance for Salmarim's specific objectives. The respective weights were applied by the author of this work; based on qualitative interviews with Salmarim's founder. This rather subjective approach allows to tap on "the entrepreneur's substantive knowledge [...] utilizing the vague and poorly articulated [...] information embedded in his [...] mind-set" (Marchi, et al. 2014). Moreover, the correlation between the criteria was identified [Appendix 14], and the subjective weights were adapted, if necessary to avoid severe imbalances. Finally, the weighted average of the various variables results in an overall score between 1 and 100 which allows to rank the countries in dependence of their predicted attractiveness for Salmarim (Figure 2).

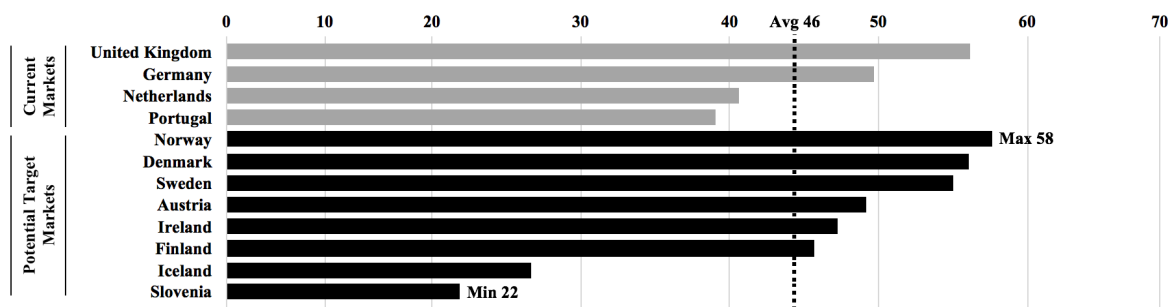


Figure 2  
Final Country Ranking (scale from 1 to 100)

**Ranking Results and Target Market** — According to the ranking results, Norway (Score: 58) is the most promising country for Salmarim's internationalization plans, beating even the United Kingdom (Score: 56) as its currently most attractive market. However, Norway is closely followed by Denmark (Score: 56) and Sweden (Score: 55). As the only Eastern European country passing the preliminary screening, Slovenia now lags far behind (Score: 22).

<sup>9</sup> For comparison reasons and to set the data of the potential target markets into perspective, some of Salmarim's current markets, including its domestic market, have been included in the ranking. Additionally, this might allow Salmarim to draw some strategic conclusions.

### **5.3 Target Market Analysis<sup>10</sup>**

This section provides an in-depth target market assessment of Norway, to validate the outcome of the country ranking. This aims to avoid overlooking critical developments not covered by the high-level ranking criteria and supports the subsequent entry mode selection.

**Macro-Environment** — Despite its comparably small population (which should not overly affect Salmarim's business opportunities, due to its low volume high margin approach) and its comparably low total GDP, Norway's economic situation seems attractive. The measurements for prosperity show excellent values with a disposable income of US\$33,575 (which is the highest value among the ranked countries and one of the highest worldwide) and a similarly high consumer expenditure of US\$28,974. These numbers are supported by a low Gini coefficient, indicating high income/wealth equality and hence suggesting that a broad share of population should be able to afford Salmarim's rather pricey products. However, this outstanding economic baseline is slightly deteriorated by Norway's sensitivity to the global economic developments. This causes a weakening of the economic activities and an estimated peak in unemployment for 2016. The future course of this development highly depends on the global economic trends and the supportive policies of the Norwegian government – which the OECD expects to be effective. (OECD 2016) Another aspect that should be emphasized in this section, is the political/legal environment affecting Salmarim: Not only is the country in a favorable position regarding trade freedom, but also does it range among the best when it comes to the “ease of doing business”, which is crucial for Salmarim in terms of operations and export. Additionally, Norway is considered politically stable, featuring a very low country risk, providing a generally stable environment. Regarding the Norwegian society, it can be observed that the urban population is expected to grow at a CAGR of nearly 1.5% in the next five years – the highest rate of all the countries in the ranking. As in many developed countries, the overall population is aging and health care as well as health awareness are generally good. Nonetheless,

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<sup>10</sup> If not stated otherwise, the data contained in this section stems from the country ranking. For further information see *Section 5.2*.

Norway lags behind many European countries when it comes to healthy nutrition. This is especially the case with organic food, which accounts for just a small share of the food available (~1% in 2010). However, the government aims to raise this percentage to 15% in 2020. This does not only suggest a rising awareness over the next years but also results in an estimated CAGR for organic food of over 6%.

***Market and Industry Assessment*** — Secondary research showed, that there is no reliable data available that describes the size and growth of the GSM. Therefore, this section will mainly focus on the correlating factors that have already been used for the country ranking. In 2015 Norway's overall salt consumption (industrial) amounted to 16,770 metric tons of which about 61% (10,280 tons) had food grade quality. This amount is expected to grow at a relatively low CAGR of 0.8%, which however, still ranges among the upper third among the ranked countries. In terms of salt consumption per capita Norway is positioned in a similar range compared to its peers, showing a comparably high average of 8.5 grams per capita and per day, indicating a preference for a hearty cuisine and hence sending a positive signal for Salmarim's plans. The suggestions of Norwegian health authorities (recommending a reduction of this amount already since 1980) do not seem have had a significant effect. (WASH 2009)

When looking at Salmarim's maximum sales potential in the Norwegian market, it is hard for the company to make a reliable forecast due to the lack of secondary information and the very limited ability to conduct primary research. However, it is possible to evaluate Norway's market attractiveness size-wise. Here, this has been done by taking several data and estimated values into account: A conservative estimation shows that, when made a priority and supported by the necessary commitment, the maximum possible sales of Salmarim in the first years could be as high as 2.3 metric tons, accounting for about ~20% of Salmarim's current capacity.<sup>11</sup> In conclusion, the estimated market size seems to be sufficiently attractive.

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<sup>11</sup> This estimation is based on data that was obtained for the country ranking: (1) urban population, (2) household size, (3) income distribution, (4) salt consumption, (5) share of salt in non-processed food. These data points have been complemented by several estimates of the author of this work, since some necessary information was not publicly available: (6) share of gourmet salt of the total amount of salt used, (7) feasible market share, (8) security factor to account for inaccuracies. (For detailed numbers and calculations see *Appendix 15*.)

**Norway's Competitive Landscape** — In terms of product quality, Salmarim has a clear geographical advantage, coming from a country with near-perfect conditions for the Flor de Sal production (see *Section 4.1*). Yet, there is some competition in the GSM beyond Flor de Sal. Market research concerning the Norwegian GSM showed similar results as the research conducted for the global market and competitive landscape (*Section 4.2*). The market seems to consist of a diverse set of smaller players distributing their products through a variety of channels. This results in a relatively high uncertainty over the competitive setting and the general market structure. Nevertheless, the research on the competitive landscape identified one domestic competitor that Salmarim should be especially aware of: “North Sea Salt Works AS” (NSSW). This competitor represents a potential threat for Salmarim for several reasons: (1) First, NSSW has a high visibility, supported by an up-to-date online presence that also serves as sales channel. (2) Additionally, NSSW pursues a positioning strategy that shows many parallels to Salmarim's. Hence, it might become a challenge for Salmarim to create a differentiation that is distinctive enough. (3) Finally, NSSW seem to be well established in Norway regarding channels and reputation, which gives it a solid position as incumbent.

## **6. Entry Mode Selection**

Salmarim's overarching goal for this decision should be to keep the risk that is associated with its internationalization at the lowest level possible. Given these conditions, the logical conclusion for Salmarim would be to follow a similar pattern as it did with previous internationalization efforts: This means exporting its products directly to intermediaries in the target country, which sell them to consumers. This would have several advantages for Salmarim: (1) The internationalization scale and pace can be adapted to the actual country situation. This significantly lowers the risk that is associated with the assumptions made in the IMS process. (2) Exporting directly, gives Salmarim more control over its own products and the way how they will be sold. Hence, enabling the company to influence positioning, brand perception, and channels. (3) Moreover, by choosing the same entry mode as in other countries,

Salmarim can leverage its own internationalization experiences as well as the existing knowledge and international network. This increases feasibility and speeds up implementation.

## **7. Risk Assessment**

This section aims to define the main risks that are associated with the internationalization strategy proposed in this work: (1) *Country risk and macro-environment*: Previous analysis showed, that Norway's country risk is relatively low and that the current macro-environment is in good shape for a market entry. However, this depends on the global economic and politic developments. An economic downturn or protective tendencies in international politics would face a danger for international activities.

(2) *Market Entry and Exit*: As earlier analyses demonstrated, Salmarim could be able to significantly increase its overall sales. Hence, it would be necessary to expand its production capacity (see *Section 5.3*). In terms of personnel, this wouldn't be problematic, since Salmarim already works with seasonally hired workforce, allowing a certain degree of flexibility. Regarding its salt works, Salmarim has the possibility to either rent salines or to buy new ones. This limits the risk associated with entering and exiting the new market, since the capital expenditure can be adapted and the sunk costs are comparably low.

(3) *Business Risk*: Although Salmarim already has experience in internationalization, it often acted rather sporadic. Hence, Salmarim must be aware that an expansion into the Norwegian market can only boost revenues, when full commitment is assured. This might result in an exceptionally high workload and could possibly drive the micro-enterprise to its capacity limits. Also, it could become harder to seize ad-hoc opportunities (e.g. more profitable orders).

(4) *Methodology*: Lastly, also the methodology used in this work bears a certain risk, which mainly derives from the assumptions and uncertainties involved. Although it is nearly impossible to avoid these in new business ventures, it is important to be aware of the risk that assumptions and estimations might not prove true. However, this risk has been reduced by



estimating conservatively, using risk factors and considering a broad set of variables that diversifies uncertainties.

## **8. Conclusion and Final Recommendations**

The first conclusion that derives from this work project is that the underlying hypothesis proves to be true, and the expansion into another foreign country seems to be beneficial for Salmarim. Also, the main question that guided the research of this work (which country to choose and how to approach it) can be answered: Salmarim should aim to expand into the Norwegian market and do so by following the export patterns that it already perused in earlier internationalization attempts. In this way, Salmarim will have the possibility to significantly increase its sales (up to ~20% in the first years, see *Section 5.3*) and at the same time reduce the risks associated with its internationalization. Salmarim could even try to further leverage the potential that lies in the Nordic gourmet salt market, since Denmark and Sweden also showed excellent results in the country ranking. Because these countries lie in the same geographic area and market and culture should be relatively homogeneous, Salmarim could easily extend its internationalization efforts. This, however, should only be done after considering the firm's available resources and capacity. Additionally, further in-depth research about the new target markets would be required.

From a scientific perspective, this work project showcases how the IMS process that is broadly examined in literature can be embedded into a company's overall strategy and adapted to its specific needs. An important finding in this process was how to close the lack of reliable primary/secondary data that micro-enterprises and niche-market operators such as Salmarim often face. The solution that has been chosen in this work project was the utilization of broadly available 'benchmark criteria' that can easily be quantified using already available secondary data from public sources. This method does not only help small firms to gather additional data-points and to diversify their IMS decision but also to adapt the ranking model to aspects that they consider especially important from a strategic perspective.

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